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LISA D. NORDSTROM
Lead Counsel
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October 26, 2015

VIA HAND DELIVERY

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
Boise, Idaho 83702

Re: Case No. IPC-E-15-17
Long Term Program Contract with Siemens Energy, Inc. – Idaho Power Company's **Redacted** Petition for Reconsideration of Order No. 33391

Dear Ms. Jewell:

Enclosed for filing in the above matter please find an original and seven (7) copies of Idaho Power Company's **Redacted** Petition for Reconsideration of Order No. 33391.

In addition, an original and seven (7) copies each of **confidential** page 10 and **confidential** Attachment 1 to the Petition for Reconsideration are provided separately. Please handle the confidential information in accordance with the Protective Agreement executed in this matter.

Very truly yours,

Lisa D. Nordstrom

Lisa D. Nordstrom

LDN:csb
Enclosures

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER COMPANY'S APPLICATION FOR APPROVAL OF LONG-TERM MAINTENANCE PROGRAM CONTRACT WITH SIEMENS ENERGY, SALE OF SPARE PARTS INVENTORY TO SIEMENS ENERGY, AND DEFERRAL OF ASSOCIATED COSTS	)	CASE NO. IPC-E-15-17 IDAHO POWER COMPANY'S **REDACTED** PETITION FOR RECONSIDERATION OF ORDER NO. 33391

COMES NOW, Idaho Power Company ("Idaho Power" or "Company"), by and through its undersigned counsel, and hereby petitions the Idaho Public Utilities Commission ("Commission") to reconsider, pursuant to Rule of Procedure 331, certain portions of the accounting treatment authorized by Order No. 33391.

This Petition is based on the following:

I. BACKGROUND

1. On June 5, 2015, Idaho Power filed an application for an order (1) approving a Long Term Program ("LTP") Contract with Siemens Energy, Inc.

("Siemens"), (2) approving the transfer and sale of certain assets to Siemens pursuant to *Idaho Code* § 61-328, and (3) approving the Company's proposed accounting treatment of costs associated with the LTP Contract.

2. On July 21, 2015, the Commission issued a Notice of Application, Notice of Modified Procedure, and Notice of Hearing. Order No. 33340. The Commission granted the timely Petition to Intervene filed by the Industrial Customers of Idaho Power ("ICIP"). Order No. 33352.

3. The Commission Staff ("Staff") and ICIP filed Comments on August 27, 2015. Staff recommended the Commission approve the LTP Contract with Siemens, approve the sale and transfer to Siemens of $21.9 million in spare parts for the Company's gas plants, and approve (1) the deferral of the initialization/initiation fees to a regulatory asset to be amortized over the remaining life of each asset, (2) the transfer of initial spare parts' net book value (approximately $21.9 million, subject to true-up) and associated tax expense (approximately $1.8 million, subject to true-up) to a regulatory asset to be amortized over the life of the plant to which the initial spare parts are associated, and (3) no carrying charge on any of the regulatory assets. Staff Comments at 8-9.

4. The ICIP supported the Company's Application but requested the Commission reject the carrying charge on the regulatory assets proposed by the Company at its overall rate of return. ICIP Comments at 7. If, however, the Commission approved a carrying charge, ICIP stated it should be at the Company's current cost of debt. *Id.* at 8.

5. The Company filed Reply Comments on September 3, 2015, responding to issues regarding the Company's proposed accounting treatment and reiterating its request for the Commission to issue an order authorizing (1) the deferral to a regulatory asset the sum of the entire initiation fee and the net book value of the initial spare parts plus the associated net tax expense with amortization to begin coincident with the effective date of the LTP Contract, (2) an amortization period for the regulatory asset equal to the length of the LTP Contract or a period consistent with the remaining life of the associated plant, and (3) that the entire unamortized balance of the regulatory asset approved in this case be eligible for rate base treatment in the Company's next revenue requirement proceeding. Reply Comments at 8-9. Idaho Power stated that without such assurance, pursuant to a provision of the contract, the Company would reevaluate the business case of entering into the LTP Contract with Siemens under its current terms and reassess the associated financial risk. *Id.* at 8.

6. A technical hearing was held on September 9, 2015, during which the Commissioners and the parties had the opportunity to cross-examine the Company's witnesses. Tr. at 21-22 and 37.

7. On October 5, 2015, the Commission issued Order No. 33391 approving the Company's proposed contract with Siemens and the transfer and sale to Siemens of $21.9 million in initial spare parts. Order No. 33391 at 4. In addition, the Commission approved the establishment of at least two regulatory assets, one titled "Rate Based" that will include the $19.1 million of initial spare parts currently in rate base and the second that will include 100 percent of the initiation fees, the $2.9 million of initial spare parts not in the Company's authorized rate base, and the associated net tax expense.

Order No. 33391 at 8. Amortization of the regulatory assets will be over the remaining life of each asset. *Id.* The Rate Based regulatory asset will continue to be in rate base and earn a return like the current treatment of those assets, while the second regulatory asset will not. *Id.* Instead, the Company is authorized to move the unamortized amount to the Rate Based regulatory asset in equal installments over ten years, with the first transfer made at the end of 2016. *Id.* at 8-9. Once transferred to the first regulatory asset, the unamortized portion will be included in rate base in the next general rate case. *Id.* at 9.

II. PETITION FOR RECONSIDERATION

8. Because the Company does not believe it was the Commission's intent to create a financial disincentive for Idaho Power to reduce costs over the long term, Idaho Power requests that the Commission reconsider certain portions of Order No. 33391 pertaining to the accounting treatment of LTP Contract costs and the related financial impact thereof.

A. Accounting Treatment of LTP Contract Costs.

9. In its Application and supporting testimony, Idaho Power requested approval of the Company's proposed accounting treatment of costs associated with the LTP Contract. Specifically, Idaho Power requested authorization of (1) the deferral of the initiation fees to a regulatory asset, (2) the transfer of the net book value of the initial spare parts and associated net tax expense to the regulatory asset, and (3) a carrying charge on a portion of the regulatory asset balance. Application at 6. The Idaho Power-proposed accounting treatment is earnings neutral to the Company and, without

its approval, the financial impact in the first few years is considerable. Waites Direct at 7, Tr. at 30.

10. On page 5 of Order No. 33391, the Commission approved the deferral of 100 percent of the initiation fees in a regulatory asset and on page 6 the Commission found that an amortization period over the remaining life of each asset aligns with the recovery that would have occurred absent the Siemens contract and is therefore "fair, just, and reasonable." Idaho Power does not request reconsideration of these findings.

11. The Commission did, however, order the establishment of two regulatory asset accounts with unique regulatory treatment for the second of the two accounts. The language at issue is found on page 8 of Order No. 33391 where the Commission stated:

> [t]he Company to establish at least two regulatory assets: (1) one to initially cover the initial spare parts currently in rate base with a subaccount with "Rate Based" in the title; and (2) the other to include the initiation fees, and the $2.9 million in initial spare parts that currently are not in the Company's authorized rate base and do not earn a return and the associated net tax expense . . . . The first regulatory asset will continue to be in rate base and earn a return like the current treatment . . . . The second regulatory asset will not earn a return. Instead, the Company will move the unamortized amount to the first regulatory asset in equal installments over ten years, with the first transfer made at the end of 2016. Once transferred to the first regulatory asset, the unamortized portion will be included in rate base in the next general rate case.

While Idaho Power does not contest the first "Rate Based" regulatory asset, the Company requests reconsideration regarding the accounting treatment of the second regulatory asset that includes the initiation fees, the $2.9 million in initial spare parts, and the $1.85 million associated net tax expense.

12. The Company requests the Commission make findings upon reconsideration that:

- The entirety of the second regulatory asset is eligible for rate base treatment at the time of the Company's next general rate proceeding;
- Amortization of the second regulatory asset is to begin immediately over the remaining life of the plant and the then-current annual amortization expense of the second regulatory asset will be eligible for recovery in the next general rate proceeding; and
- The Company should transfer unamortized amounts of the second regulatory asset to the first regulatory asset in equal installments over ten years, resulting in an account balance of zero in the second regulatory asset after ten years of transfers to the first regulatory asset, taking into account the reduction of the second regulatory asset due to amortization over the remaining life of the asset.

Rate Base Treatment

13. Idaho Power's Application requested approval to accrue a carrying charge on the initiation fees, $2.9 million of the initial spare parts, and the net tax expense because the amounts have not yet been included in the Company's authorized rate base. Application at 7. Included in the second regulatory asset are amounts paid upfront by Idaho Power to Siemens to contractually obtain cost savings for the Company and its customers over the life of the agreement. These net cost savings benefits reflect an offset for the initiation fee paid to secure the contract with Siemens. The savings are not the result of just the lower future capital maintenance costs to be performed under the LTP Contract with Siemens; rather, a significant part of those

future savings that customers and the Company will enjoy are a direct result of the required upfront payment to Siemens. The overall savings of over $37 million, even with the upfront payment, reflect avoided combustor inspections, access to discounted parts, and the time value of money recognition by Siemens within the contract.

14. The proposed accounting treatment is similar to the regulatory treatment Idaho Power regularly receives as the Company makes prudent investments throughout its service territory to serve its customers. Idaho Power routinely makes investments in infrastructure to serve customer growth in larger increments to achieve lower overall cost to serve customers over time. The Commission has considered these investments to be prudent and eligible for inclusion in the Company's authorized rate base and to be eligible to earn a return at the time they are placed in service. Likewise, the $2.9 million of initial spare parts is an investment equivalent to the $19.1 million on initial spare parts approved for rate base treatment in the first regulatory asset; the only difference is that Idaho Power has not yet had a general rate proceeding to include the $2.9 million in initial spare parts in the Company's authorized rate base. Yet, on page 8 of Order No. 33391, the Commission states "[t]he second regulatory asset will not earn a return." Because this treatment would be contrary to treatment received today, Idaho Power seeks reconsideration of the regulatory treatment of the second regulatory asset such that it can earn a return and that it is eligible for rate base treatment at the time of the Company's next general rate proceeding.

Amortization

15. On page 8 of Order No. 33391, the Commission ordered both regulatory assets to be amortized over the remaining life of the associated plant. Further, the

Order stated treatment of the first regulatory asset "will be consistent with current recovery, and will not shift costs to customers prematurely" indicating amortization expense will simply replace depreciation expense upon execution of the LTP Contract with Siemens. Order No. 33391 at 8. However, the commencement and recovery of amortization of the second regulatory asset is unclear. Idaho Power requests the Commission authorize the Company to begin amortization of the second regulatory asset immediately and confirm that the then-current annual amortization expense will be eligible for recovery in the Company's next general rate proceeding.

Unamortized Balance Transfers

16. The Commission ordered the Company to move unamortized amounts of the second regulatory asset to the "first regulatory asset in equal installments over ten years, with the first transfer made at the end of 2016." Order No. 33391 at 8-9. As discussed earlier, the Commission also ordered the second regulatory asset to be amortized over the remaining life of the associated plant. *Id.* at 6. But, moving an equal installment of the second regulatory assets balance each year for ten years is not straightforward given that at the same time the asset is also being amortized over the remaining life of the plant. A simple one-tenth approach will create a negative regulatory asset balance, or a regulatory liability, by year ten. Coincident with the transfer of equal installments, the regulatory asset is being amortized, further reducing the account balance over time. Idaho Power seeks authorization from the Commission to move equal installments of the unamortized portion to bring the account to zero rather than create a negative balance in the second regulatory asset.

B. The Financial Impact of Order No. 33391.

17. Idaho Power has quantified the financial impact of Order No. 33391 based on the Company's interpretation of the accounting treatment authorized by the Commission and it is substantial. While the Company's proposed accounting treatment of costs associated with the LTP Contract with Siemens kept Idaho Power earnings neutral, the Commission's authorized treatment creates a net present value impact to shareowners of approximately $3.7 million over the remaining life of the assets, as can be seen in the confidential workpaper (Attachment 1 to Petition for Reconsideration).

18. The primary driver of the financial impact of Order No. 33391 to Idaho Power is a result of the Company's inability to earn a return on the second regulatory asset. The Company is concerned Order No. 33391 could result in an immediate disallowance of amounts that would have otherwise been included in rates. Accounting Standards Codification 980 provides that when a regulator excludes from rate base a portion of plant, the entity must record the present value loss associated with the disallowed return on investment—referred to as an indirect disallowance. The Company is also evaluating whether the delay associated with receiving a return on the second regulatory asset has indirect disallowance implications. In the worst case scenario, this disallowance could be as much as $4.8 million, which represents the foregone return on the second regulatory asset not immediately eligible for rate base treatment. The approved accounting treatment in Order No. 33391 could require, during the year the LTP Contract is executed, a write down of assets, resulting in an immediate reduction in income for the Company.

19. If Order No. 33391 is affirmed on reconsideration, the financial harm resulting from the authorized accounting treatment of the second regulatory asset will require Idaho Power to seek to mitigate the impact through the renegotiation of the LTP Contract with Siemens pursuant to the contract's PUC Approval provision, which requires accounting treatment consistent with the Company's Application or acceptable to the Company. Application Attachment 1 at 3 and 7. Without amendment, it is possible the Company will not enter into the LTP Contract with Siemens due to the exposure to financial risk that it creates. Additionally, amending the contract would delay execution of a long-term service agreement; thus, potentially requiring the Company to perform plant maintenance outside of the contract with Siemens. [redacted].

20. Although renegotiation of the LTP Contract may still result in cost savings to customers over time, the delay would require significant immediate investments—costs that will ultimately be passed on to customers. Over the next two years, under continued self-management of the Langley Gulch and Bennett Mountain power plants,

Idaho Power estimates capital investments of $21.7 million that would, under normal circumstances, be eligible for inclusion in the Company's authorized rate base in the next general rate proceeding. Under the LTP Contract, including all of the initiation fee payment, the estimated capital investment for the same capital maintenance activity for the Langley Gulch and Bennett Mountain power plants is nearly equivalent. However, the LTP Contract includes a $6 million payment lag to Siemens of approximately one year compared to the self-management option. This is one example that illustrates the value to customers of the upfront payment under the LTP Contract as written.

21. Commission Rule of Procedure 331 requires that Idaho Power state the nature and extent of evidence or argument it will present or offer if reconsideration is granted. Idaho Power believes that the evidentiary record could be augmented by written comments or oral argument at the discretion of the Commission, and the Company is prepared to do so.

III. <u>CONCLUSION</u>

22. Idaho Power requests reconsideration of the accounting treatment authorized by Order No. 33391. The Company requested a carrying charge on the upfront expenditures because those expenditures result in future benefits to customers. However, under the accounting treatment authorized, the Company will not be allowed a carrying charge and also will not be eligible to earn a return on its investment when it is placed in service in the next general rate proceeding. It is also unclear if the Company will be eligible to recover the amortization expense associated with the investment.

23. Therefore, Idaho Power requests that the Commission reconsider Order No. 33391 and authorize the Company (1) to include the unamortized balance in the second regulatory asset in rate base during the Company's next general rate proceeding, (2) to begin amortization of the second regulatory asset immediately and include the amortization expense for recovery in the Company's next general rate proceeding, and (3) to move equal installments of the unamortized portion of the second regulatory asset to the first regulatory asset to bring the account to zero over ten years. Idaho Power believes this treatment is consistent with the Commission's treatment of other plant related expenditures and will eliminate financial disincentives for the Company to reduce costs over the long term.

Respectfully submitted this 26th day of October 2015.

Lisa D. Nordstrom

LISA D. NORDSTROM
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 26th day of October 2015 I served a true and correct copy of IDAHO POWER COMPANY'S **REDACTED** PETITION FOR RECONSIDERATION OF ORDER NO. 33391 upon the following named parties by the method indicated below, and addressed to the following:

Commission Staff Karl T. Klein Deputy Attorney General Idaho Public Utilities Commission 472 West Washington (83702) P.O. Box 83720 Boise, Idaho 83720-0074	_X_ Hand Delivered ___ U.S. Mail ___ Overnight Mail ___ FAX _X_ Email karl.klein@puc.idaho.gov
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Christa Bearry

Christa Bearry, Legal Assistant

BEFORE THE

IDAHO PUBLIC UTILITIES COMMISSION

CASE NO. IPC-E-15-17

IDAHO POWER COMPANY

ATTACHMENT 1

THE ATTACHMENT IS CONFIDENTIAL AND WILL BE PROVIDED TO THOSE PARTIES THAT HAVE SIGNED THE PROTECTIVE AGREEMENT